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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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In the Matter of	
Access Charge Reform	CC Docket No. 96-262
Price Cap Performance Review for Local Exchange Carriers	CC Docket No. 94-1
Transport Rate Structure and Pricing	CC Docket No. 91-213
End User Common Line Charges	CC Docket No. 95-72

JOINT REPLY COMMENTS OF BELL ATLANTIC AND NYNEX[1]

The commenters all agree that the Commission's proposal to apply presubscribed interexchange carrier charges ("PICCs") to Special Access lines would harm the interests of both the local exchange carriers and their customers. While there is no doubt that the PICCs and the increased subscriber line charges on multiline business customers will adversely affect demand for the local exchange carriers' ("LECs'") services, the Commission should deal with this issue by providing the LECs with greater pricing flexibility.

[1] These reply comments are submitted by Bell Atlantic-Delaware, Inc.; Bell Atlantic-Maryland, Inc.; Bell Atlantic-New Jersey, Inc.; Bell Atlantic-Pennsylvania, Inc.; Bell Atlantic-Virginia, Inc.; Bell Atlantic-Washington, D.C., Inc.; Bell Atlantic-West Virginia, Inc.; New York Telephone Company and New England Telephone and Telegraph Company (collectively, "BA/NYNEX").

Several commenters agree with BA/NYNEX that there is no need to change the Part 69 rules for allocating general support facility ("GSF") costs. However, if the Commission decides to change its rule, it should adopt the alternative methodology described by USTA and BA/NYNEX, which would allocate a reasonable amount of GSF costs to billing and collection without causing undue shifts in costs among access categories.

I. The Commission Should Not Impose PICCs On Special Access Lines. (FNPRM, Paras. 397-406)

The LECs, interexchange carriers ("IXCs"), and end users are united in their opposition to the Commission's proposal to apply PICCs to Special Access lines.[2] They agree that such charges would adversely affect demand for the LECs' Special Access services without appreciably diminishing bypass of the LECs' Switched Access services. They also agree that it would be inconsistent with the objective of making access charges more cost-based, since PICCs do not recover any of the costs of providing Special Access services.

There is no question that the increased subscriber line charges ("SLCs) and the new PICCs will adversely affect demand for the LECs' local exchange

[2] *See, e.g.*, USTA at pp. 2-3; Ad Hoc at pp. 4-15; MCI at pp. 4-8; SNET at pp. 3-4; US West at pp. 2-4; Bell South at pp. 3-4; Sprint at pp. 1-4; API at pp. 2-13; AT&T at pp. 2-7.

services.[3] Competitive LECs, who are not constrained by the Commission's Part 69 rules, do not need to apply these rates to their business customers, and they can also offer discounts to purchasers of multiple business lines. The Commission should deal with this problem by granting the LECs additional pricing flexibility,[4] rather than by imposing new, uneconomic burdens on the LECs' Special Access customers. In its upcoming rulemaking on LEC pricing flexibility,[5] the Commission should allow the LECs to ameliorate the impact of the PICCs and the higher SLCs on multiline business customers through geographic deaveraging, contract pricing, discounts and other pricing options.

II. While There Is No Need To Change The GSF Allocation Rules, The USTA and BA/NYNEX Methodology Is The Best Alternative. (FNPRM, Paras. 407-418)

Several commenters agree that there is no need to modify the Commission's Part 69 cost allocation rules to assign GSF costs to the billing and collection ("B&C") category.[6] As the Commission observed in 1988, B&C is a declining service for the LECs, and a change in the GSF allocation rule is not necessary to address what is, at most, a temporary problem.[7]

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[3] *See* In the Matter of Access Charge Reform, CC Docket No. 96-262, First Report and Order, FCC 97-158, released May 16, 1997, paras. 401-402 ("FNPRM").

[4] *See, e.g.*, Bell South at p. 4.

[5] *See* FNRPM at para. 14.

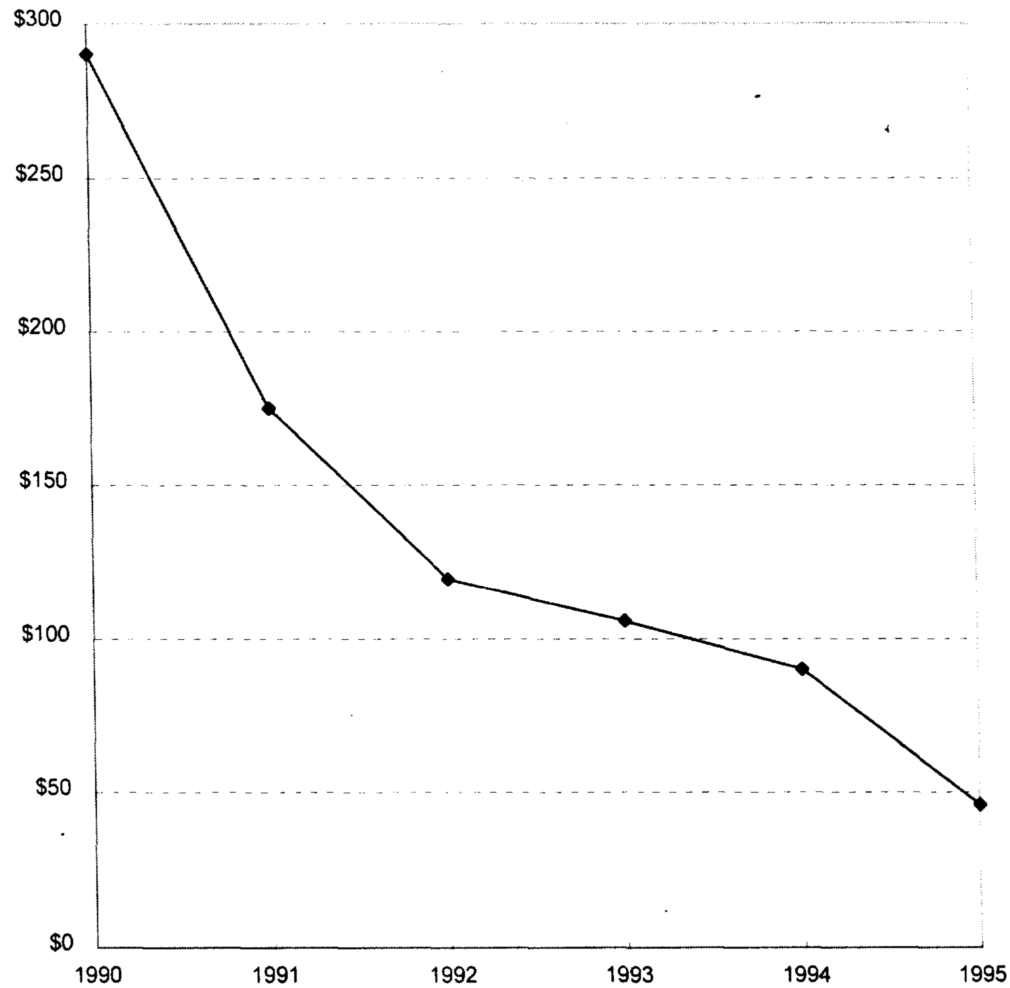
[6] *See, e.g.*, USTA at p. 4; GTE at p. 7; SBC at pp. 4-5; CBT at p. 2; SNET at p. 5; Bell South at pp. 5-7.

[7] *See* BA/NYNEX at pp. 5-6; CBT at p. 2; SBC at p. 5.

MCI disagrees, citing $800 million in LEC B&C revenues in 1995.[8] MCI does not provide a source for this figure, but the 1995 ARMIS 43-01 Reports show that the regional Bell operating companies plus GTE had only $576 million in interstate B&C revenues. This is represents a 37% reduction from $937 million in B&C revenues in 1990. Moreover, net revenues, which reflect gross revenues minus expenses for B&C, have declined more rapidly over the same time period, as is shown below;

[8] *See* MCI at pp. 10-11.

Billing And Collection Net Return[9]
(Dollars are in Millions)



MCI also incorrectly claims that an amendment of the Part 69 rules is required to ensure that the LECs do not continue to recover GSF costs associated with B&C even if the IXCs take back billing and collection services from the

[9] Regional Roll Up Based on 4Q ARMIS 43-01 Filed Data Column U, Rows 1090 and 1290 Less Rows 1190, 1390, 1490 and 1590).

LECs.[10] MCI argues that, under the previous rate of return regime, a reduction in GSF costs that results from a decline in LEC B&C operations would translate into a reduced revenue requirement for interstate access services, but that this would not occur under price caps unless the Commission changes its cost allocation rules.[11]

MCI has it exactly backwards. Under rate of return regulation, a decline in LEC B&C operations would cause an <u>increase</u> in rates, because the reduction in the B&C allocator would shift GSF costs back to interstate access charges. This is why the Commission's decision in 1988 to leave the cost allocation rule unchanged was correct. If the Commission had changed its GSF allocation rules at that time, it would have caused only a temporary reallocation of GSF costs to B&C, and only a temporary reduction in access charges. As the IXCs took back B&C from the LECs, the GSF costs would have been reallocated to access in subsequent annual access tariff filings, and access charges would have gone back up. This would have occurred because a reduction in B&C operations has no appreciable effect on GSF costs. The land, buildings, vehicles, furniture, and even most of the capacity of the general purpose computers, did not go down as the LECs lost their B&C business.

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[10] *See id.*
[11] *See id.* at p. 12.

In contrast, under price caps, a revision in the GSF allocator could have a permanent effect on LEC revenues. If the Commission changed its rule and required an exogenous cost reduction in price cap access charges to reflect the reallocation of GSF costs to B&C, that would be a one-time adjustment that would not be reduced in the future as B&C continued to decline. However, as B&C revenues were reduced, the LECs would still incur the GSF costs, again because the land, buildings, and other assets would remain. For this reason, it would be unreasonable under the price cap regime to require a reallocation of GSF costs to a service which is steadily declining. [12]

MCI also argues that a reallocation of GSF costs is necessary to offset the recent separations rule change that allocated additional other billing and collection ("OB&C") costs to the interstate jurisdiction.[13] When the Commission decided in Docket 80-286 to assign a fixed one-third of OB&C costs to the interstate jurisdiction, this increased the GSF costs that were assigned to

[12] MCI argues that assignment of a portion of GSF costs to B&C is necessary to avoid a Section 254(k) prohibition on using services that are not competitive to subsidize services that are subject to competition. *See id.* at p. 10. MCI is wrong for at least three reasons. First, because there is no direct connection between B&C service and the level of GSF costs, no allocation methodology can be said to be a subsidy. Second, both B&C and access services are subject to competition. Third, for a declining service, a decision not to assign costs that would remain even after the service was discontinued is sound public policy and can by no means be construed as cross-subsidization. Moreover, regardless of the amount of costs that are assigned to B&C service, there is no showing that the rules overallocate joint and common costs to the services that comprise universal service.

[13] *See id.* at p. 11.

interstate as well. MCI complains that this caused an increase of $65 million in revenue requirements for interstate access services in the 1997 Annual Access Tariff Filings, since the Commission's Part 69 rules did not assign the additional interstate GSF costs to B&C. MCI's objection has nothing to do with how costs are allocated among the interstate categories. Instead, MCI takes issue with the level of costs allocated to all interstate categories -- not an issue here. GSF costs are generally unrelated to the level of B&C services, regardless of whether they are assigned to the state or interstate jurisdiction. The Commission's rule change had no impact on the proportion of GSF costs allocated to B&C.

If the Commission decides to change the GSF allocator, which it should not, the methodologies proposed by MCI should be rejected. First, MCI suggests that if the Commission requires the LECs to conduct special studies to determine the percentage of general computer investment that is used for B&C, it should also require the LECs to conduct special studies of buildings, furniture, office equipment, and other GSF investments in Account 2110. However, all of the commenters, including MCI, recognize that special studies would be costly, and they would produce varying results among the LECs.[14] In particular, "special studies" of the GSF investments that are associated with the LECs' B&C operations are likely to produce arbitrary and varying results, since there is not always a clear way of identifying what portion of an asset being studied is

[14] *See, e.g.*, MCI at p. 14; AT&T at p. 10; Sprint at p. 4; USTA at p. 4.

specifically attributable to B&C activities. This is one reason why the Commission uses general allocators to assign GSF costs rather than direct assignment based on studies.

AT&T recognizes that an appropriate methodology must be "straightforward and simple to administer" and should not allow for subjective adjustments.[15] But AT&T supports the Commission's second option, which would cause large disruptions of GSF allocations among the access categories unrelated to B&C. In contrast, the BA/NYNEX and USTA alternative focuses on the concerns raised over allocation of computer investment without causing a wholesale disruption in the allocation of other costs. It is consistent with the overall scheme of Part 69, as it would allocate a portion of Account 2124 general computer investments to B&C using Big Three expenses as an allocator,[16] and it would cause smaller shifts in GSF costs among the access charge categories, because the change in allocation methods would be limited to just the general purpose computer investment. As a result, the alternative proposal would answer the IXC concerns over cost allocation without making a radical permanent change in cost allocation rules to solve a problem that is disappearing of its own accord.

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[15] *See* AT&T at p. 10.

[16] *See* USTA at p. 5; BA/NYNEX at pp. 7-8; *see also* Sprint at p. 4. Big Three Expenses are the combined expenses in Plant Specific Operations Expenses, Plant Nonspecific Operations Expenses, and Customer Operations Expenses. *See* 47 C.F.R. Section 69.2(e).

III. Conclusion

For the foregoing reasons, the Commission should not require the LECs to apply PICCs to Special Access lines. There is also no need to change the rules to allocate GSF costs to B&C. If the Commission decides, nonetheless, to change the GSF cost allocation rules, it should adopt the USTA and BA/NYNEX alternative methodology.

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CERTIFICATE OF SERVICE

I hereby certify that copies of this pleading were mailed this date, first class postage prepaid, upon the persons listed on the attached service list.

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